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Chief Executive Officer

September 8, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

STATUS REPORT ON SEPTEMBER 11, 2007 BOARD ORDER REGARDING COST OF EMPLOYEE HEALTH CARE

This is to provide you with a second status report on actions being taken in response to the above Board order. The September 11, 2007 Board action was taken in connection with the Board's approval of the 2008 premium rates for the County's health insurance plans. There was, at the time, considerable frustration with the cost of the health plans, and volatility of those costs, particularly with regard to the Kaiser Plan.

The Board order directed the Chief Executive Office to:

1) Determine the feasibility of forming a consortium of other public agencies to address problems regarding data disclosure by health insurance carriers;

2) Pursue legislative approaches to require better disclosure of data; and

3) Examine opportunities to implement innovative cost saving initiatives that go beyond the "Cost, Mitigation, Goals and Objectives (CMGOs)" set out in the fringe benefit agreements with Local 721 and the Coalition of County Unions.

The Board also directed the Chief Executive Office to look at the feasibility of combining the County's represented and non-represented Kaiser groups into a single consolidated group. That idea was determined not to be feasible for reasons outlined in an initial status report on February 21, 2008.

Situation Much Improved for 2009

We are now one year removed from the Board's last discussion on this matter. We have an item on the September 9, 2008 agenda, which is being continued to September 16, 2008, that contains recommendations regarding the 2009 premium rates for County's health, dental and other group insurance plans. As indicated in the letter transmitting those recommendations, our health insurance consultant, Mercer, is reporting that all of the 2009 premium rates are justified in their view, including the Kaiser rates.

Mercer is also reporting that Kaiser's data disclosure continues to improve and that the level of detail provided this year is significantly improved over last year. In addition, all of the 2009 premium rates for all of the health plans, including Kaiser, are supported by Local 721 and the Coalition of County Unions. This was not the case one year ago. More detail on these matters is contained in our Board letter.

The Kaiser Argument

Despite the progress in the past year, the history with Kaiser costs has been difficult. However, Kaiser argues two points in this regard:

- Their failure to provide the cost detail historically demanded by the County and normally provided by other carriers is due to a technical inability to provide the information, not an unwillingness to do so.

- The relatively high cost of Kaiser is due to a disproportionately high disease burden within the Kaiser population versus the populations of the other County health plans.

With regard to the first point, Kaiser is, in fact, unlike any other HMO. Other HMOs are essentially composed of a contractual network of hospitals, medical groups, and other providers. These entities typically have a relatively well established capability to provide detailed billing statements and other information essential to tracking actual claims experience by individual or group. Kaiser, in contrast, owns its own facilities and hires its own employees, generally. Kaiser is much less dependent on contractual relationships with other providers and, therefore, has had less need, historically, to develop the type of detailed benefit utilization information that can be used for rate justification purposes. In our view, Kaiser is still in the final phases of a long-term evolution away from a legacy practice that involved the charging of a single "community rate" to all of its clientele.

Kaiser is improving and becoming more like other HMOs in terms of data production and disclosure. As noted above, its data production this year was sufficient to permit a finding by Mercer that the 2009 rates are justified. Although we appreciate the progress, the situation is more likely due to Kaiser's need to compete with other HMOs than any demands from the County or other employers. The old community rating idea, and the variations on that theme that pertained in recent years, was losing too many good health risks to other insurers who were experienced rating individual groups and offering lower premiums to the groups with the least disease burden. Mercer estimates that it will be at least two years before Kaiser has its systems capabilities at 100 percent of where it would like them to be.

Study of Disease Burden

With regard to Kaiser's contention that they have a disproportionate share of the disease burden within the County population it covers, we believe we should determine if Kaiser is right. If Kaiser is right, we need to know to what extent this explains the difference in price between Kaiser and the other County health plans. If Kaiser is wrong, we need to know that too. We have, therefore, retained Mercer to conduct a "risk study" that will measure the relative morbidity in the County sponsored and union sponsored County approved plans.

The Mercer risk study will be accomplished through using a widely accepted actuarial technique that relies on prescription pharmacy information to identify the disease burden within each plan. Based largely on the types and amounts of prescription drugs used by the population in each plan, it is possible to determine the overall morbidity for that group, and to compare it to other groups. It is also possible to determine if the price differences between the plans for each group are attributable partially, or fully, to differences in morbidity, or other factors having nothing to do with morbidity. It is even possible to predict future morbidity with some certainty for up to one year into the future. Fortunately, prescription drug information is relatively easy for all of our insurers to produce, including Kaiser. In fact, Kaiser was one of the first insurers to provide this information.

The Mercer risk study will complement the traditional rate setting methodology we went through this year and in prior years. It will produce a total of five years of actual data from 2003 through 2007. Based on this information, we will have an assessment of the relative disease burden in each County sponsored health plan for each of these five years based on actual data, and an estimate of the disease burden in 2008. We do not expect the union sponsored plans in the Coalition of County Unions to participate in this effort. If they do not, Mercer will make an estimate of the disease burden in those plans based on census information.

We are currently in the process of completing confidentiality agreements with the affected carriers. Absent unforeseen problems in that area, we expect to have the risk study completed and a report back to the Board within 90 days.

Given this development, and the overall progress Kaiser has made with regard to data disclosure, we believe it is premature to pursue either the formation of a state-wide consortium on data disclosure, or legislative alternatives aimed at the same problem. Pending any direction to the contrary by the Board, we will place those parts of the September 11, 2007 Board order on hold and will address them further in the report back on the risk study.

Cost Saving Initiatives

With regard to cost savings initiatives savings that go beyond CMGOs, we have retained a wellness consultant to develop a long-term wellness strategy and a related measurement model and evaluation plan. Prior to the start of the consultant, wellness efforts were well underway. On September 28, 2007, Department Heads were called to action and asked to designate a senior level manager (Wellness Program Manager) to spearhead wellness in each county department. Since then, we have provided departmental Wellness Program Managers with necessary tools and training to assist them in their efforts.

In October 2007, we launched countywide wellness initiatives in an effort to improve the health of employees and their families, improve employee productivity, reduce absenteeism and reduce health care costs. Wellness Program Managers were asked to implement the negotiated wellness program, "My Health is My Wealth", for employees represented by Local 721. The program contains internet-based health assessments with personalized feedback to help employees improve their health. Small cash rewards are paid on completion of the programs to encourage participation. We were able to initially negotiate no cost to the County for these programs.

We have also implemented walking programs with free pedometers from Local 721's carriers. A similar program was launched for non-represented employees in February 2008. In July 2008, the Kaiser internet based reward and walking programs were implemented for Kaiser enrollees represented by the Coalition of County Unions (CCU). To date, over 4,000 Health Risk Assessments have been taken by County employees and their dependents.

Other wellness initiatives include: increasing the number of wellness fairs held throughout the County each year from four to six; implementation of onsite lunch and learn seminars with carrier presentations held at outlying County departments; and monthly lunchtime webinars. The most recent initiative we are pursuing to encourage prevention and early diagnosis of chronic conditions is waiving copays for preventive care services for employees represented by Local 721 and non-represented employees. At this time, the CCU has decided not to implement this benefit with both of their carriers.

If you have any questions, please call me or your staff may contact Wayne Willard of this office at 974-2494.

WTF:DL:WGL
WW:MH:df

c: Executive Office, Board of Supervisors
Auditor-Controller
County Counsel
Department of Human Resources